
Developing a Business Plan

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Most companies avoid writing a business plan until they are in need of money to finance the growth of their business. Propelled forward by the desire to raise money from banks, business angels, family, and strategic allies, the business owner begins this unique form of communication with the intent of convincing potential investors that they can make a return on their investment (ROI).

No matter what your reason for beginning to write a business plan, this process can be far more fruitful if you view business planning as a transformational process for you and your team. The end product of well conceived business planning is not only an excellent selling document, but increased acumen which will allow you to effectively use this tool to raise the funds required.

A business plan is only as good as the research which precedes it. Therefore, the purpose of this brief presentation is to:

- introduce you to methods for conducting the research required for business plan development
- provide you with a generic business plan outline

Dawnbreaker suggests that participants in the SBIR/ STTR programs engage in a concurrent, and phased approach to business planning. During Phase I it is recommended that the small business conduct preliminary strategic and commercialization planning, get close to the potential customer, size the opportunity and look at competitive approaches to addressing the same need. As business planning is an iterative in nature, during Phase II, it is recommended that the evolving business case be affirmed, and then operational plans and pro forma financials developed.

The business plan outline which follows would be modified as appropriate in light of the specific business functions which a company will pursue and the commercialization strategy of choice.

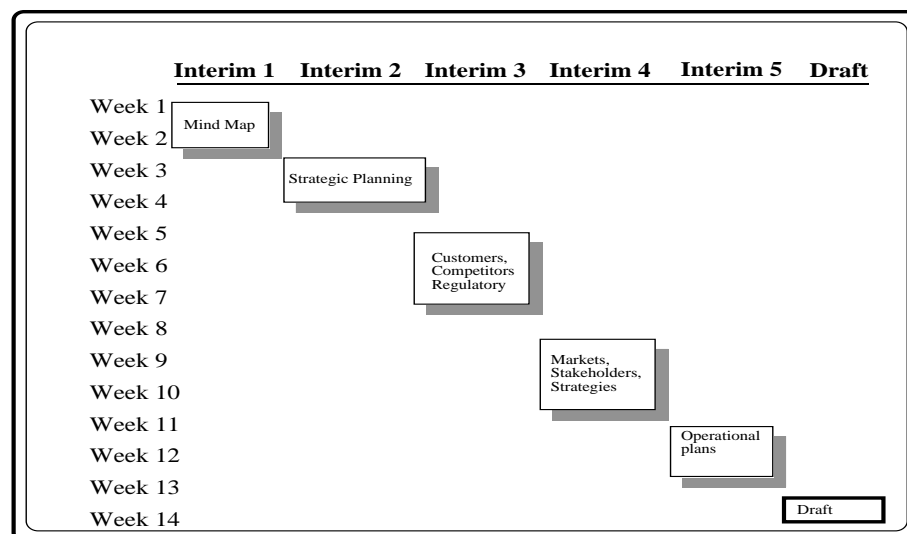
Plans are nothing. Planning is everything
Dwight D. Eisenhower

Table 6 - 1: Relative time spent on various business planning activities

SKILLS	SOURCES OF ASSISTANCE	PER CENT TIME
Hypothesizing	You, management team, outsider	5%
Data gathering	State programs, RTTC, students	10%
Review & synthesis	You, management team, board, outsider	15%
Decision making	You, management team	5%
Strategizing	You, management team, board, outsider	10%
Number crunching	You, management team, accountant, SCORE	15%
Re-evaluation	You, management team, board, outsider	5%
Writing	You, management team, outsider	20%
Editing	You, editor, board, outsider	10%

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Overview of schedule for Interim Reports



“If you don’t know where you are going, you will probably end up somewhere else.”
Laurence J. Peter

Table 2-1: Different visions for the future

	Revenue	# Employees	Purpose	Private/Public
Life-Style	\$2 million	30-40	support owners	Private
Foundation	\$10-30 million	40-400	start new industry	Private
High-Potential	\$20-30 million	500	growth & value	Go public

Figure 4-2: Financing options as a function of applications and resources required

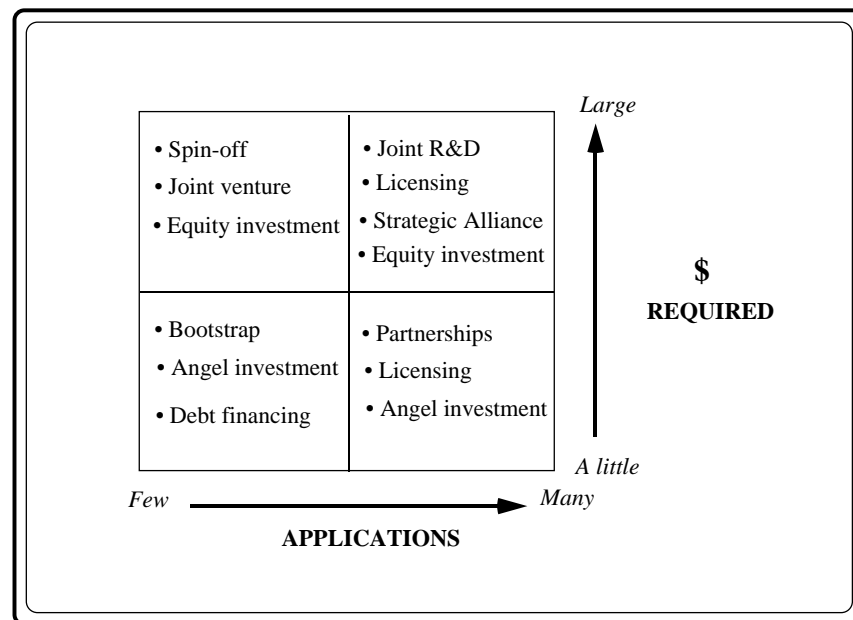
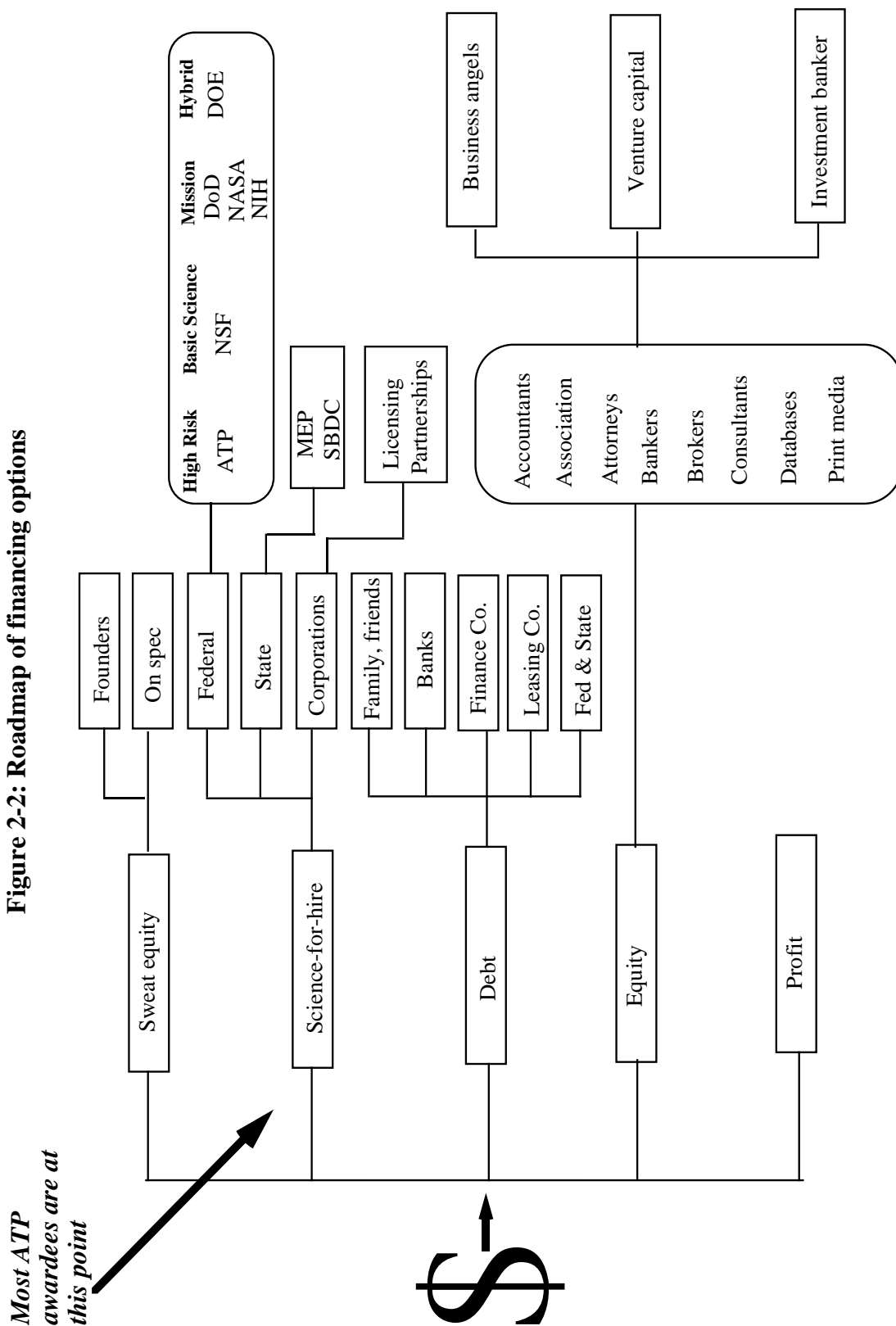


Figure 2-2: Roadmap of financing options



Sample Commercialization Strategies

Commercialization strategy

- The series of financing options that a company entertains to move its technology from concept to the market place
 - Start-Up.....Sweat equity
 - Concept development.....Phase I
 - Prototype development.....Phase II
 - Phase 1: Screening for Safety..... Corporate partner/small co
 - Phase 2: Establishing protocol.....Corporate partner
 - Phase 3: Final Test..... Corporate partner
 - Marketing.....???
 - Scale-up pf production.....???

Factors which effect your commercialization strategy

- Mission
- Vision
- Business philosophy
- Window of opportunity
- Competitors

Sample strategy - Licensing

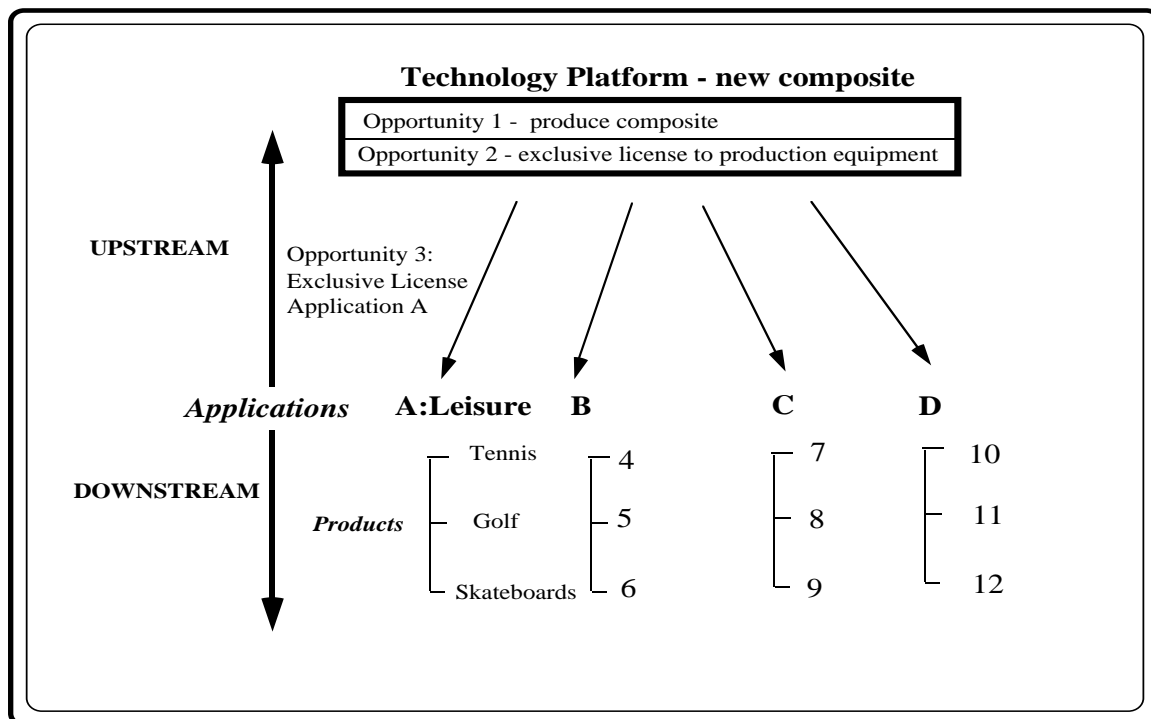
- Vision: Life-style company
- Philosophy: Do what I enjoy
- Financing methods
 - Start-up.....sweat equity
 - Concept development.....SBIR
 - Intellectual propertyRetained earnings
 - Application dev.....Licensee
 - Production.....Licensee

Sample Strategy - IPO

- Vision: High-potential venture
- Philosophy: I want to do it all
- Financing methods used:
 - Concept development.....Federal funding
 - Prototype development.....Seed financing from angels
 - Market test..... Retained earnings
 - Market introduction.....Equity - Fortune 500
 - Scale-up.....Second round financing VC
 - New facility.....Private placement
 - Expansion.....Line of credit, profits
 - Market penetration.....IPO

Sample strategy - Equity

- Equity investment in parent company
 - Vision: High potential venture
 - Philosophy: Rich is good
 - Financing methods used:
 - Sweat equity
 - Science for hire
 - Private placement
 - Debt financing from equity investor



*What you need to accomplish
in each section of the plan*

When the reader leaves the company section they should have no doubt what business functions your company performs and what gives you a competitive edge.

The technology section needs to introduce key concept, clarifying what is novel about the approach.

The rich potential of the technology should be briefly described - without making it appear that you are unfocused.

The reader needs to leave the Customer section feeling confident that you have had first hand experience with the potential customers and end-users you intend to serve. Your goal is to reduce perceived market risk by demonstrating your understanding of your customers and their purchasing behavior. Don't fail to include information that you have which demonstrates your first hand experience with customers and end-users.

Business Plan Outline (Detailed)

Cover Page

Table of Contents

1. EXECUTIVE SUMMARY

2. COMPANY & TECHNOLOGY

2.1 Brief company introduction

- *Mission*
- *Location, size, history*
- *Overview of company capabilities*
- *Customers & past performance*

2.2 Technology

- *Brief description*
- *Applications*

2.3 Product/Service

- *Brief description*
- 2.3.1. *Intellectual property status*

2.4 Commercialization strategy - brief overview

3. INDUSTRY OVERVIEW

3.1. Industry definition and description

- *New products and developments within the industry*
- *Major players within the industry, factors driving dynamics*

3.2. Legislation and policies driving the industry

- *Future and historical trends*

4. CUSTOMERS

4.1 Customers & end-user

- *Need addressed by the technology/product/service*
- *How the need is currently filled?*
- *Features, Advantages, and Benefits; Price point*
- *Who has the need? - Differentiate between end-users and customer needs*
- *Distribution channels used to customers and end-users*

4.2 Buying behavior

- *Decision makers*
 - *Who makes the decision to buy*
 - *Who influences the purchase decision*
 - *Characterization of decision makers*
- *Basis for purchase decisions*

- *Frequency of purchase decisions*
- *Basis for purchase decisions*

5. MARKET

- 5.1. Market definition
 - 5.1.1. Primary market
 - 5.1.2. Secondary markets
- 5.2. Market size and trends - Primary market
 - *Current total and served-available markets*
 - *Predicted annual growth rate*

If you do not understand your market well, it increases market risk. Therefore, you must demonstrate to the investor that you are focused on opportunities which are substantial, real, and where you have a competitive advantage. Due to constraints, it is never possible to tackle all opportunities at one time. Therefore, you need to also demonstrate that you have prioritized the markets you will serve.

6. COMPETITORS

- 6.1. Indirect competitors
- 6.2. Direct competitors
 - *Who are they?*
 - *Strengths and weaknesses*
 - *Market share of competitors*

You must demonstrate that you understand your customer's needs and the different ways that need can be addressed. Then, demonstrate a knowledge of competitors which goes beyond identification and which clarifies their strengths and weaknesses.

7. MARKETING/SALES PLAN

- 7.1 Opportunity Statement
- 7.2. Marketing & sales objectives
- 7.3. Current customers (if appropriate)
- 7.4. Potential customers
 - *Customers targeted for intensive selling efforts*
 - *How other customers will be identified and qualified*
 - *Product features emphasized and contrasted with competitors*
- 7.5. Pricing
 - *Basis for targeted price point*
 - *Margins & levels of profitability at various levels of production & sales*
- 7.6. Sales Plan
 - *Sales force analysis (reps, distributors, direct)*
 - *Sales expectations for each salesperson & each distribution channel*
 - *Margins given to intermediaries*
 - *Service and warranties*
 - *Organizational chart for sales/marketing staff, indicating planned growth for 3 - 5 years*
- 7.7. Advertising
 - *Year 1- Detailed Marketing Communications plan*
 - *Years 2-5 (general)*

Now that you have set the stage for the opportunity, in the operational plans you must clarify how you will attack the opportunity and realize your objectives. "The devil is in the details" and details are what you need to present. Demonstrate that your approach to the market place is competitive and at an appropriate level given your objectives and role in the market place.

7.8. Sales/Marketing Budget

- *Assumptions*

8. R&D PLAN

8.1. R&D Objectives

8.2. Milestones and current status

- *What remains to be done to make the product marketable?*

8.3. Difficulties and risks

8.4. Staffing

8.5. R&D Budget

- *Assumptions*

9. MANUFACTURING/ENGINEERING PLAN

9.1. Objectives

9.2. Use of Subcontractors

9.3. Quality control

9.4. Staffing

9.5. Manufacturing/Engineering budget

- *Assumptions*

10. HUMAN RESOURCE PLAN

10.1. Staffing Objectives

10.2. Organizational structure - phased over 3-5 years

- *Introduction of management team*
- *Key individuals to be recruited and plans for doing so*
- *Board of Directors, Advisory Board*
- *Incentives for commitment*

10.3. Human Resource Budget

- *Assumptions*

11. CONTINGENCIES

11.1. Potential Risks

- *Impact and responses*

It is recognized that risks exist in any venture. Rather than glossing over those, indicate the areas of technical risk and what alternative approach(es) you might attempt if the difficulties prove insurmountable.

Make sure that your R&D plan will provide the stream of products on a schedule required to meet the window of opportunity.

Assure that you spend considerable time studying the alternative means of production before developing your plans and do everything that you can to reduce manufacturing risk.

An example of a phased organizational chart is included at the end of this outline. Use a variation of this to demonstrate growth over time. Keep in mind that management risk is a primary issue in any venture, as the team is responsible for realizing the opportunity. If you do not have a multi-functional management team, clearly show your plans for building one on a timely basis. Meantime, make excellent use of Boards of Advisors and Directors.

A contingency section is an important element of a solid business plan and is a reflection of the management team's savvy. You must demonstrate that you have thought through what could occur in light of your knowledge of the marketplace as well as your weaknesses. Demonstrate that you have prepared a response, should these risks arise. The objective is to demonstrate preparedness. This is not written in the style of a prospectus.

12. FINANCIALS

12.1. Financial Objectives

- *Commercialization strategy*
- *Use of funds*
- *Terms & conditions of any previous financing arrangements*

12.2. Plans for obtaining investors or strategic alliance

- *Profile of investor or partner sought*
- *Leveraging advantage for investor/partner*
- *Detailed plans for obtaining investor/partner*
- *Costs and time associated with securing investor/partner*

12.3. Pro Forma Profit & Loss statements

12.4. Pro Forma Cash Flow projections

12.5. Pro Forma Balance Sheet

12.5. Alternative return scenarios

- *Exit scenarios*

Appendices

Could include:

- Analysis of potential teaming partners
- Patent information
- Detailed market surveys
- Customer endorsements
- More detailed technical information

References

- Bibliography
- Industry experts consulted

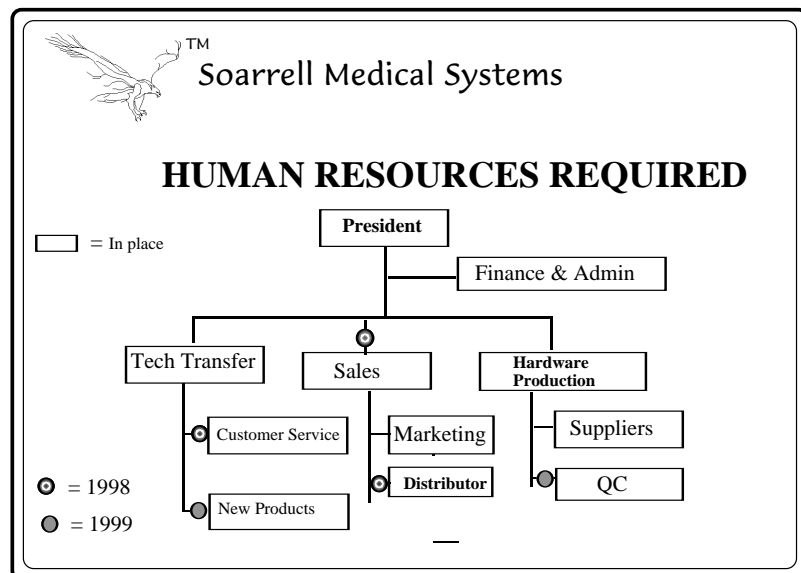
** In the initial draft of the business plan, include the budget for each functional area at the end of each section as indicated. However, in the final draft you may wish to remove these individual budgets and include the financials only in Section 12.*

Sample of a Phased Organizational Chart

When developing the Human Resource (HR) section of your business plan, you will find the use of graphics such as this useful.

It is often difficult to determine how to best represent the human resources required to execute a business plan which will unfold over a 3-5 year period. One way to do this is through the use of a Phased Organizational chart. Start by drawing an organizational chart showing what the company will look like at the end of a predetermined period - in this case 1999. Then use a key to show when certain roles will be added.

In the example which follows, this was drawn in 1997 and was used to show what the organization would look like in three years and when various roles would be added. Those functions without a key were already existing in 1997. In other words, at that time there was a President, a person responsible for production, tech transfer, and finance and administration. However, the sales role was not added until 1998, and new product development and quality control were added as discrete functions in 1999. Also note that the reporting relationship of suppliers and distributors are represented on the same chart.



Executive Summary

Listed below is a suggested outline for the Executive Summary. This should be no longer than 3 pages in length and may include figures and tables.

Company & Background

- company location & mission statement, sustainable competitive advantage
- provide background on core technology
- commercialization strategy

The Market Opportunity

- describe market need
- market size & trends

Management Team

- key players and relevant background
- highlights and accomplishments

Investment Highlights

- what level of financing are you seeking?
- how funds will be used
- what type of partner/investor you seek
- why this is a good opportunity for them.